

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name Lapeer County Road Commission	County Lapeer
Audit Date 12/31/03	Opinion Date 3/5/04	Date Accountant Report Submitted to State: 6/29/04	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Accounting System for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- | | |
|---|---|
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) Stewart, Beauvais & Whipple, PC			
Street Address 1799 Holland Avenue		City Port Huron	State MI
		ZIP 48060	
Accountant Signature <i>Stewart, Beauvais & Whipple</i>		Date	

LAPEER COUNTY ROAD COMMISSION
A Component Unit of Lapeer County, Michigan

ANNUAL FINANCIAL STATEMENTS
WITH SUPPLEMENTARY INFORMATION

FOR THE YEAR ENDED DECEMBER 31, 2003

**Stewart,
Beauvais
& Whipple** P.C.

CERTIFIED PUBLIC ACCOUNTANTS



LAPEER COUNTY ROAD COMMISSION
A Component Unit of Lapeer County, Michigan

DECEMBER 31, 2003
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INDEPENDENT AUDITOR'S REPORT

To the Board of County Road Commissioners
of Lapeer County
Lapeer, Michigan

We have audited the accompanying basic financial statements of the Lapeer County Road Commission, a component unit of Lapeer County, Michigan, as of December 31, 2003, and for the year then ended. These financial statements are the responsibility of the Road Commission management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 17 to the basic financial statements, the Road Commission adopted Governmental Accounting Statements Board Statements 34 and related statements as of and for the year ended December 31, 2003. This resulted in a change to the Road Commission's basic financial statement format and content.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Road Commission of Lapeer County, Michigan, as of December 31, 2003, and the results of its operations for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report, dated March 5, 2004, on our consideration of the Road Commission of Lapeer County, Michigan's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*, and should be read in conjunction with this report in considering the results of our audit.

The accompanying management's discussion and analysis on pages 3-6 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements of the Lapeer County Road Commission. The schedules and tables on pages 30-35 are presented for purposes of additional analysis and are not a required part of the basic financial statements of the Road Commission of Lapeer County, Michigan. Such information, except for the portion marked "unaudited" on which we express no opinion, has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Certified Public Accountants

March 5, 2004

LAPEER COUNTY ROAD COMMISSION

A Component Unit of Lapeer County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Lapeer County Road Commission (the "Road Commission"), we offer readers of these financial statements this narrative, overview and analysis of the financial activities of the Road Commission for the year ended December 31, 2003. This discussion and analysis is designed to assist the reader in focusing on the significant financial issues and activities and to identify any significant changes in financial position.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to provide a basis of understanding of the Lapeer County Road Commission's basic statements. These basic financial statements comprise three components: (1) government-wide financial statements, (2) fund financial statements and (3) notes to the financial statements. Supplementary financial information is also provided for additional information purposes.

Government-Wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the Road Commission finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the Road Commission assets and liabilities, with the differences between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Road Commission is improving or deteriorating.

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

Fund Financial Statements

Unlike the government-wide financial statements, governmental financial statements focus on near-term inflows and outflows of spendable resources, as well as on the balances of spendable resources available at the end of the year. Such information may be useful in evaluating the Road Commission's near term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for the government-wide financial statements. By doing so, readers may better understand the long-term impact of the Road Commission's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balance provide a reconciliation to facilitate this comparison between governmental funds and the government-wide financial statements.

The Lapeer County Road Commission adopts an annual appropriated budget for the operating fund. A budgetary comparison statement has been provided to demonstrate compliance with this budget.

Notes to the Financial Statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 10-26 of this report.

FINANCIAL HIGHLIGHTS

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. As shown on the chart below, the Road Commission's assets exceeded liabilities by \$65,034,808 at the end of the year.

The net assets are separated into three major components, invested in capital assets net of related debt, which amounted to \$61,961,524 or 95.2% of net assets, restricted net assets of \$2,897,633 or 4.5% of net assets and finally unrestricted net assets of \$175,651 or .3%. The invested in capital assets of the Road Commission reflects its investment in capital assets (i.e., land, buildings, vehicles, equipment and infrastructure) less any related debt not funded by Townships. The Road Commission uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. The restricted net assets are the net assets that resulted from Primary and Local Road activities that are restricted by the Michigan Department of Transportation to be used on the respective Primary and Local roads. The remaining balance of unrestricted net assets may be used to meet the Road Commission's ongoing obligations to citizens and creditors.

At the end of the current year, the Road Commission is able to report positive balances in all three categories (invested in capital assets net of related debt, restricted and unrestricted net assets).

Because this is the first year of implementation of Governmental Accounting Standards Board No. 34, which requires this new reporting model, the following table presents only current year data. In future years, when prior year information is available, comparative analysis of the Road Commission's data will be presented.

Condensed Statement of Net Assets

Assets	
Current and other unrestricted assets	\$ 4,140,642
Due from townships – MTF note agreements	3,430,000
Capital Assets	<u>62,038,324</u>
Total Assets	<u>69,608,966</u>
Liabilities	
Long-term liabilities outstanding	3,586,678
Other liabilities	<u>987,480</u>
Total Liabilities	<u>4,574,158</u>
Net Assets:	
Invested in capital assets	61,961,524
Restricted	2,897,633
Unrestricted	<u>175,651</u>
Total net assets	<u>\$ 65,034,808</u>

BASIC FINANCIAL STATEMENTS

LAPEER COUNTY ROAD COMMISSION
A Component Unit of Lapeer County, Michigan

GOVERNMENTAL FUND BALANCE SHEET/STATEMENT OF NET ASSETS
DECEMBER 31, 2003

	Governmental Fund	Adjustments (Note 2)	Statement of Net Assets
ASSETS			
Cash and cash equivalents	\$ 1,695,344	\$ -	\$ 1,695,344
Due from other governmental units -			
State	1,337,813	-	1,337,813
Local	3,645,805	-	3,645,805
Accounts receivable	35,970	65,504	101,474
Prepaid expenditures/expenses	45,204	46,465	91,669
Inventory	698,537	-	698,537
Capital assets, net of accumulated depreciation			
Assets not being depreciated	-	30,957,771	30,957,771
Assets being depreciated	-	31,080,553	31,080,553
Total Assets	<u>\$ 7,458,673</u>	<u>\$ 62,150,293</u>	<u>\$ 69,608,966</u>
LIABILITIES AND FUND EQUITY			
Liabilities:			
Accounts payable	\$ 239,163	\$ -	\$ 239,163
Accrued liabilities	77,672	-	77,672
Accrued interest payable	-	67,051	67,051
Due to other governmental units	143,271	-	143,271
Advances and deposits	438,087	-	438,087
Deferred revenue	3,601,500	(3,601,500)	-
Contingent liability (Maintenance Agreement)	22,236	-	22,236
Noncurrent liabilities -			
Due within one year	-	-	-
Due in more than one year	-	585,600	585,600
Total Liabilities	<u>4,521,929</u>	<u>3,001,078</u>	<u>3,001,078</u>
		<u>52,229</u>	<u>4,574,158</u>
Fund Balance:			
Fund Balance -			
Reserved -			
Prepaid expenditures	45,204	(45,204)	-
Primary/Local Roads	2,806,011	(2,806,011)	-
Unreserved -			
Undesignated	85,529	(85,529)	-
Total Fund Balance	<u>2,936,744</u>	<u>(2,936,744)</u>	<u>-</u>
Total Liabilities and Fund Balance	<u>\$ 7,458,673</u>		
Net Assets:			
Invested in capital assets, net of related debt		61,961,524	61,961,524
Restricted for Primary/Local Roads		2,897,633	2,897,633
Unrestricted		175,651	175,651
Total Net Assets		<u>\$ 65,034,808</u>	<u>\$ 65,034,808</u>

See Notes to Financial Statements

LAPEER COUNTY ROAD COMMISSION
A Component Unit of Lapeer County, Michigan

**STATEMENT OF GOVERNMENTAL FUND REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE/STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2003**

	Governmental Fund	Adjustments (Note 2)	Statement of Activities
Revenues:			
Permits	\$ 110,853	\$ -	\$ 110,853
Intergovernmental -			
Federal sources	1,019,710	-	1,019,710
State sources	7,674,977	-	7,674,977
Local sources	2,828,822	(366,717)	2,462,105
Charges for services	996,071	-	996,071
Interest and rents	40,841	(18,487)	22,354
Other	39,764	-	39,764
Total Revenues	<u>12,711,038</u>	<u>(385,204)</u>	<u>12,325,834</u>
Other Financing Sources:			
County appropriations	220,711	-	220,711
Total Revenues and Other Financing Sources	<u>12,931,749</u>	<u>(385,204)</u>	<u>12,546,545</u>
Expenditures/Expenses:			
Current -			
Primary heavy maintenance	3,757,826	(3,757,826)	-
Local heavy maintenance	2,459,449	(2,459,449)	-
Primary maintenance	1,803,742	(844)	1,802,898
Local maintenance	2,559,507	(959)	2,558,548
State maintenance	1,010,790	-	1,010,790
Administrative	695,212	(22,106)	673,106
Equipment	2,099,133	(613,173)	1,485,960
Less equipment rental			
charged to other activities	(2,023,883)	-	(2,023,883)
Depreciation	-	3,153,591	3,153,591
Other	236,018	3,107	239,125
Capital Outlay	175,057	(175,057)	-
Less: depreciation credit			
and retirements	(656,391)	656,391	-
Debt Service -			
Principal	718,400	(718,400)	-
Interest	200,301	(19,248)	181,053
Total Expenditures/Expenses	<u>13,035,161</u>	<u>(3,953,973)</u>	<u>9,081,188</u>
Excess of revenues and other financing sources over (under) expenditures	(103,412)	3,568,769	3,465,357
Fund Balance/Net Assets at January 1, 2003	<u>3,040,156</u>	<u>58,529,295</u>	<u>61,569,451</u>
Fund Balance/Net Assets at December 31, 2003	<u>\$ 2,936,744</u>	<u>\$ 62,098,064</u>	<u>\$ 65,034,808</u>

LAPEER COUNTY ROAD COMMISSION
A Component Unit of Lapeer County, Michigan

**STATEMENT OF GOVERNMENTAL FUND REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE YEAR ENDED DECEMBER 31, 2003**

	Original Budget	Amended Budget	Actual	Variance with Amended Budget Positive (Negative)
Revenues:				
Permits	\$ 150,000	\$ 150,000	\$ 110,853	\$(39,147)
Intergovernmental -				
Federal sources	1,900,000	2,935,800	1,019,710	(1,916,090)
State sources	7,300,000	7,300,000	7,674,977	374,977
Local sources	2,500,000	2,500,000	2,828,822	328,822
Charges for services	1,100,000	1,100,000	996,071	(103,929)
Interest and rents	120,000	30,000	40,841	10,841
Other	80,000	35,000	39,764	4,764
	<u>13,150,000</u>	<u>14,050,800</u>	<u>12,711,038</u>	<u>(1,339,762)</u>
Other Financing Sources:				
County appropriations	190,000	190,000	220,711	30,711
Total Revenues and Other Sources	<u>13,340,000</u>	<u>14,240,800</u>	<u>12,931,749</u>	<u>(1,309,051)</u>
Expenditures:				
Current -				
Primary heavy maintenance	3,209,000	4,870,000	3,757,826	1,112,174
Local heavy maintenance	2,565,000	2,565,000	2,459,449	105,551
Primary maintenance	1,307,119	1,368,000	1,803,742	(435,742)
Local maintenance	1,903,054	2,053,000	2,559,507	(506,507)
State maintenance	1,100,000	1,100,000	1,010,790	89,210
Administrative	630,000	630,000	695,212	(65,212)
Equipment - net	280,000	340,000	75,250	264,750
Other	550,000	700,000	236,018	463,982
Capital Outlay - net	(510,000)	(510,000)	(481,334)	(28,666)
Debt Service	919,125	919,125	918,701	424
Total Expenditures	<u>11,953,298</u>	<u>14,035,125</u>	<u>13,035,161</u>	<u>999,964</u>
Excess of revenues and other sources over (under) expenditures	1,386,702	205,675	(103,412)	(309,087)
Fund Balance at January 1, 2003	<u>3,040,156</u>	<u>3,040,156</u>	<u>3,040,156</u>	<u>-</u>
Fund Balance at December 31, 2003	<u>\$ 4,426,858</u>	<u>\$ 3,245,831</u>	<u>\$ 2,936,744</u>	<u>\$(309,087)</u>

See Notes to Financial Statements

NOTES TO FINANCIAL STATEMENTS

LAPEER COUNTY ROAD COMMISSION
A Component Unit of Lapeer County, Michigan

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2002

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (cont'd):

Inventories - Inventories of road materials and equipment parts are recognized using the consumption method (inventories are recorded as expenditures when they are used). Inventories are stated at the lower of first-in, first-out (cost or market) or at average cost.

Deferred Federal And State Aid - On certain federal and state funded construction projects in the County and administered by the Michigan Department of Transportation, the Road Commission is required to pay the local portion of the project costs at the start of the project. The local portion is recorded as Deferred Aid at the time of payment. The expenditure is recognized upon notice from the Michigan Department of Transportation that construction has been completed.

Prepaid Items - Certain payments to vendors (particularly for insurance coverage) reflect costs that are applicable to a future period and are recorded as prepaid items.

Capital Assets - Capital assets, which include property, plant, equipment, and infrastructure are reported in the government-wide (statement of net assets) financial statements. Capital assets for land, buildings and improvements and all equipment except road equipment are defined by the Road Commission as assets with an estimated useful life in excess of 2 years. Road equipment is capitalized as defined by the Michigan Department of Transportation without consideration of minimum cost. Capital assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are recorded in the governmental fund statements as capital expenditures at the time of purchase.

Depreciation is computed on the sum-of-the-years digits method for road equipment, and straight-line method for all other capital assets over the estimated useful life of the related asset.

The estimated useful lives are as follows:

Buildings and Improvements	40 years
Equipment	5- 8 years
Roads	8-30 years
Bridges	25-50 years
Traffic signals	15 years

Infrastructure is reported retrospectively from 1980, except for right-of-ways, bridges, and traffic signals which are required to be reported despite the date of purchase. Roads are removed from the capital assets at the time the group of individually recorded roads have been fully depreciated.

Depletion is calculated as the amount of prorated cost or other indicated value assigned to the extracted portion of a natural resource (gravel).

LAPEER COUNTY ROAD COMMISSION
A Component Unit of Lapeer County, Michigan

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2003

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (cont'd):

The Uniform Accounting Procedures Manual for Michigan County Road Commissions provides for recording depreciation and depletion in the governmental fund statements as a charge to various expenditure accounts, and a credit to a depreciation/depletion credit account. Accordingly, the annual depreciation/depletion expenditures do not affect the available operating equity of the governmental fund statements.

Advances From The State Of Michigan - The State of Michigan advances funds on a State maintenance agreement it has with the Lapeer County Road Commission for equipment purchased and used in performance of the specified maintenance. These advances are considered current liabilities because they are subject to repayment annually upon audit by the State of Michigan.

Accrued Vacation And Sick - In accordance with contracts negotiated with the various employee groups of the Road Commission, employees have a vested right upon termination to receive compensation for accumulated sick and vacation leave under formulas and conditions specified in the contracts. Employees are compensated 100% of their vested accumulated vacation leave upon termination for any reason, and for their vested sick leave upon retirement or death. All amounts vested are accrued in the government-wide statements (statement of net assets).

Deferred Revenues - In both the government-wide and the fund financial statements revenue received or recorded before earned is recorded as deferred revenue. In addition, in the governmental fund statements revenues that are not both measurable and available are recorded as deferred revenues.

Equipment Rental - The Michigan Department of Transportation requires that the cost of operating equipment, including depreciation, be charged (allocated) to the various activities. The effect of this allocation is offset to equipment expenditures/expenses.

Long-Term Obligations - In the government-wide financial statements (statement of net assets), long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities. MTF Note premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. MTF notes payable are reported net of the applicable premium or discount. Issuance costs are reported as deferred charges and amortized over the term of the related debt. As permitted by GASB Statement No. 34, the Road Commission has elected to apply the provisions related to bond premiums discounts, and issuance costs on a prospective basis.

Estimates - In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reporting amount of assets and liabilities, the disclosures of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

LAPEER COUNTY ROAD COMMISSION
A Component Unit of Lapeer County, Michigan

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2003

NOTE 4 - DEPOSITS AND INVESTMENTS - (cont'd):

- b) In certificates of deposit, savings accounts, deposit accounts or depository receipts of a financial institution, but only if the bank, savings and loan association, or credit union is eligible to be a depository of surplus funds belonging to the State under Section 5 or 6 of Act No. 105 of the Public Acts of 1855, as amended, being section 21.145 and 21.146 of the Michigan Compiled Laws.
- c) In commercial paper rated at the time of purchase within the two (2) highest classifications established by not less than two (2) standard rating services and which matures not more than 270 days after the date of purchase.
- d) In the United States government or federal agency obligations repurchase agreements.
- e) In bankers acceptances of United States banks.
- f) In obligations of the State of Michigan or any of the political subdivisions that at the time of purchase, are rated as investment grade by not less than one standard rating service.
- g) In mutual funds registered under the Investment Company Act of 1940, with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation.
- h) In investment pools organized under the surplus funds investment act, 367 of 1982.
- i) In investment pools organized under the local government investment pool act, 121 of 1985.

Deposits -

As a component unit of the Lapeer County, all Road Commission cash is part of the accounts maintained by Lapeer County. However, the Road Commission by State statute has funds allocated to it by the State of Michigan for its exclusive use and control. As a result, funds of the Road Commission have separate insurance coverage.

Federal Deposit Insurance Corporation (FDIC) regulations provide that deposits of governmental units are to be separately insured for the amount of \$100,000 for deposits in an insured bank for savings deposits and \$100,000 for demand deposits. Furthermore, if specific deposits are regulated by statute or bond indenture, these specific deposits are to be separately insured for the amount of \$100,000.

As of December 31, 2003, the carrying amount of the Road Commission's deposits is \$1,172,376, and the bank balance is \$1,182,226 of which \$100,000 is FDIC insured.

LAPEER COUNTY ROAD COMMISSION
A Component Unit of Lapeer County, Michigan

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2003

NOTE 4 - DEPOSITS AND INVESTMENTS – (cont'd):

The County believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the County evaluates each financial institution and assesses the level of risk. The County uses only those financial institutions with an acceptable estimated risk level as depositories.

Due to significantly higher cash flow at certain periods during the year, the amount the Road Commission held as Cash and Cash Equivalents increases significantly. As a result, the amount of uninsured cash and cash equivalents is substantially higher at these peak periods than at year end.

Investments -

The Road Commission held at December 31, 2003, \$522,618 in financial institution investment pools that are not evidenced by securities that exist in physical or book entry form. The investment pool accounts are registered with the Securities and Exchange Commission and the fair value of the County's portion in the investment pools is the same as the value of the investment pool shares. The investment pool accounts have been reported in the financial statements as a cash equivalent because they have the general characteristics of demand deposit accounts in that the County may deposit additional cash at any time and effectively may withdraw cash at any time without prior notice or penalty. The investment pools are recorded at cost which approximates fair value.

The following is a summary of the financial statement presentation of Deposits and Investments as of December 31, 2003:

	<u>Financial Reporting</u>
	<u>Cash & Cash</u>
	<u>Equivalents</u>
Deposits	\$ 1,172,376
Investments	<u>522,618</u>
	<u>\$ 1,694,994</u>

The caption cash and cash equivalents on the Balance Sheet also includes \$350 in petty cash.

NOTE 5 - TOWNSHIP NOTE PROGRAMS:

The Due From Other Governmental Units – Local includes Township Note Programs in the amount of \$3,430,000 at December 31, 2003, which represents the amount that the Townships are participating in repayment of 1997, 2000 and 2002 MTF notes. A corresponding amount has been recorded as deferred revenue in the governmental fund statements and will be recognized as revenue as payments from the Townships become available.

LAPEER COUNTY ROAD COMMISSION
A Component Unit of Lapeer County, Michigan

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2003

NOTE 6 - FEDERAL AWARDS:

It is required by the Michigan Department of Transportation (MDOT) that Road Commissions report total federal awards for Highway Research, Planning and Construction pertaining to their County. However, only the federal financial assistance applicable to force account expenditures is required to be audited for compliance under the Single Audit Act through Road Commission procurement. The reason for this requirement is that the Road Commission is required to have accounting and administrative control over the force account portion while the balance is administered by MDOT.

During the year ended December 31, 2003, the Road Commission of Lapeer County expended less than \$300,000 of force account expenditures applicable to federal awards (local force revenue). As a result, an audit for compliance under the Single Audit Act was not performed.

Federal revenues of \$1,019,710 represent Department of Transportation of Federal Highway grant money expended on public road improvement projects under Federal Programs which were administered by the Michigan Department of Transportation.

NOTE 7 - CAPITAL ASSETS:

Capital assets activity for the current year was as follows:

	Balance January 1, 2003	Additions	Deletions	Removals	Balance December 31, 2003
Capital Assets, not being depreciated -					
Land	\$ 159,507	\$ -	\$ -	\$ -	\$ 159,507
Land improvements	28,444,360	2,173,858	-	-	30,618,218
Right of Ways	180,046	-	-	-	180,046
Total Capital Assets, not being depreciated	<u>28,783,913</u>	<u>2,173,858</u>	<u>-</u>	<u>-</u>	<u>30,957,771</u>
Capital Assets, being depreciated -					
Buildings and improvements	1,830,010	-	-	-	1,830,010
Road Equipment	5,918,144	175,057	211,037	-	5,882,164
Shop Equipment	154,591	-	-	-	154,591
Office Equipment	507,095	-	-	-	507,095
Engineering equipment	70,700	-	-	-	70,700
Infrastructure -					
Roads	35,833,087	3,260,787	-	1,827,632	37,266,242
Bridges	8,463,496	775,225	-	77,107	9,161,614
Traffic signals	83,723	-	-	-	83,723
Depletable assets -					
Gravel pits	205,130	-	-	-	205,130
	<u>53,065,976</u>	<u>4,211,069</u>	<u>211,037</u>	<u>1,904,739</u>	<u>55,161,269</u>

LAPEER COUNTY ROAD COMMISSION
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NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2003

NOTE 7 – CAPITAL ASSETS – (cont'd):

	Balance January 1, 2003	Additions	Deletions	Removals	Balance December 31, 2003
Less – accumulated depreciation for –					
Buildings and improvements	\$ 1,072,747	\$ 54,595	\$ -	\$ -	\$ 1,127,342
Road Equipment	4,191,052	589,381	203,230	-	4,577,203
Shop Equipment	152,834	1,705	-	-	154,539
Office Equipment	477,462	8,436	-	-	485,898
Engineering Equipment	70,700	-	-	-	70,700
Infrastructure –					
Roads	14,169,990	2,303,129	-	1,827,632	14,645,487
Bridges	2,740,621	191,575	-	74,026	2,858,170
Traffic signals	22,324	4,770	-	-	27,094
Depletable Assets	<u>134,283</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>134,283</u>
	<u>23,032,013</u>	<u>3,153,591</u>	<u>203,230</u>	<u>1,901,658</u>	<u>24,080,716</u>
Total Capital Assets, being depreciated, net	<u>30,033,963</u>	<u>1,057,478</u>	<u>7,807</u>	<u>3,081</u>	<u>31,080,553</u>
Governmental activity capital assets, net	<u>\$ 58,817,876</u>	<u>\$ 3,231,336</u>	<u>\$ 7,807</u>	<u>\$ 3,081</u>	<u>\$ 62,038,324</u>

The State of Michigan does not allow depreciation to be recorded in the governmental fund statements on salt shed and salt lagoon construction costs reimbursed by the State. However, the depreciation of \$5,553 on the salt sheds and lagoon is recorded in the government-wide statement of activities. Total depreciation for the year ended December 31, 2003 was \$3,153,591.

NOTE 8 - ADVANCES AND DEPOSITS:

Advances and Deposits of \$437,087 at December 31, 2003, represent money advanced by the State of Michigan, under the maintenance contract the Road Commission has with the State for working capital and equipment purchases, advances and deposits from Townships, contractors and individuals for various projects. The State advance is adjusted annually by the State, and must be repaid if the maintenance contract is cancelled. The following is a summary of the balance by source and use:

State -	
Trunkline maintenance	\$ 197,091
Equipment	<u>86,023</u>
	<u>283,114</u>
Local -	
Other Governmental Units -	
Township advances	27,770
Contractors and Individuals -	
Permits	112,057
Other	<u>15,146</u>
	<u>154,973</u>
	<u>\$ 438,087</u>

LAPEER COUNTY ROAD COMMISSION
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NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2003

NOTE 9 – LONG-TERM LIABILITIES:

The Road Commission has the following long-term liabilities outstanding at December 31, 2003:

	Balance January 1, 2003	Additions	Reductions	Balance December 31, 2003	Due Within One Year
1993 MTF Note	\$ 190,000	\$ -	\$ 190,000	\$ -	\$ -
1997 MTF Note	350,000	-	70,000	280,000	70,000
2000 MTF Note	1,760,000	-	220,000	1,540,000	220,000
2000 MTF Note	560,000	-	70,000	490,000	70,000
2002 MTF Notes	450,000	-	50,000	400,000	50,000
2002 MTF Notes	800,000	-	80,000	720,000	80,000
Capital leases – road equipment	115,200	-	38,400	76,800	38,400
Accrued vacation	65,519	156,739	142,380	79,878	57,200
	<u>\$4,290,719</u>	<u>\$ 156,739</u>	<u>\$ 860,780</u>	<u>\$3,586,678</u>	<u>\$ 585,600</u>

Significant details regarding outstanding long-term liabilities are presented below:

MTF Note – Series 1997

The Road Commission is obligated for Michigan Transportation Fund Notes, Series 1997, dated October 1, 1997, in the original amount of \$700,000. The payments are due in annual installments on August 1 of \$70,000 through 2007, with interest ranging from 4.7% to 4.9% due on February 1 and August 1 of each year. At December 31, 2003, the outstanding principal balance is \$280,000.

MTF Note – Series 2000

The Road Commission is obligated for Michigan Transportation Fund Notes, Series 2000, dated May 11, 2000, in the original amount of \$2,200,000. Principal payments are due in annual installments on August 1 of \$220,000 through 2010, with interest ranging from 4.7% to 5.0% due on February 1 and August 1 of each year. At December 31, 2003, the outstanding principal balance is \$1,540,000.

MTF Note – Series 2000 B

The Road Commission is also obligated for Michigan Transportation Fund Notes, Series 2000B, dated November 21, 2000 in the original amount of \$700,000. Principal payments are due in annual installments on August 1 of \$70,000 through 2010, with interest ranging from 4.8% to 5.5% due on February 1 and August 1 of each year. At December 31, 2003, the outstanding balance is \$490,000.

LAPEER COUNTY ROAD COMMISSION
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NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2003

NOTE 9 – LONG-TERM LIABILITIES – (cont'd):

MTF Note – Series 2002

The Road Commission is obligated for Michigan Transportation Fund Notes, Series 2002, dated April 1, 2002, in the original amount of \$500,000. Principal payments are due in annual installments on August 1 of \$50,000 through 2011, with interest ranging from 4.15% to 4.60% due on February 1 and August 1 of each year. At December 31, 2003, the outstanding principal balance is \$400,000.

MTF Note – Series 2002 B

The Road Commission is also obligated for Michigan Transportation Fund Notes, Series 2002B, dated May 15, 2002 in the original amount of \$800,000. Principal payments are due in annual installments on August 1 of \$80,000 through 2012, with interest ranging from 3.25% to 4.10% due on February 1 and August 1 of each year. At December 31, 2003, the outstanding balance is \$720,000.

Capital Leases -

The Road Commission is obligated for capital lease agreements to finance the acquisition of certain road equipment. The minimum annual payments for the capital leases are summarized in Note 10.

Accrued Vacation -

In accordance with contracts negotiated with the various employee groups of the Road Commission, individual employees have a vested right upon termination of employment to receive payment for unused vacation under formulas and conditions specified in the contracts. The dollar amount of these vested rights, which has been accrued on the financial statements in the government-wide statements, amounts to approximately \$79,878 at December 31, 2003.

The annual requirements to amortize long-term liabilities outstanding at December 31, 2003, except accrued vacation, are as follows:

	<u>MTF Note - Series 1997</u>		<u>MTF Notes-Series 2000</u>		<u>MTF Notes – Series 2002</u>		<u>Total</u>
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	
2004	\$ 70,000	\$ 13,405	\$ 290,000	\$ 107,065	\$ 130,000	\$ 44,110	\$ 654,580
2005	70,000	10,115	290,000	92,105	130,000	39,260	631,480
2006	70,000	6,790	290,000	77,100	130,000	34,210	608,100
2007	70,000	3,430	290,000	62,190	130,000	29,160	584,780
2008	-	-	290,000	47,025	130,000	24,110	491,135
2009-2012	-	-	<u>580,000</u>	<u>47,535</u>	<u>470,000</u>	<u>45,420</u>	<u>1,142,955</u>
	<u>\$ 280,000</u>	<u>\$ 33,740</u>	<u>\$2,030,000</u>	<u>\$ 433,020</u>	<u>\$1,120,000</u>	<u>\$ 216,270</u>	<u>\$ 4,113,030</u>

LAPEER COUNTY ROAD COMMISSION
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NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2002

NOTE 10 - CAPITAL LEASES:

The Road Commission has entered into lease purchase agreements to finance the acquisition of an excavator with the original cost of \$115,200. The lease agreement qualifies as a capital lease for accounting purposes (agreement provides for either title transfer or bargain purchase option at end of the lease terms) and, therefore, has been recorded at the present value of future minimum lease payments as of the date of inception. The net book value of the excavator at December 31, 2003 is \$75,260.

The following is a schedule of future minimum lease payments, together with the present value of the minimum lease payments as of December 31, 2003:

<u>Year Ending</u> <u>December 31,</u>	
2004	\$ 41,050
2005	<u>39,725</u>
Total minimum lease payments	80,775
Less amount representing interest	<u>3,975</u>
Present value of minimum lease payments	<u>\$ 76,800</u>

NOTE 11 - EMPLOYEE PENSION PLAN:

Plan Description -

The Lapeer County Road Commission participates in the Michigan Municipal Employees' Retirement System (MERS); an agent multiple employer state-wide, public employee defined benefit pension plan created under Public Act 135 of 1945, and now operates under Public Act 220 of 1996, and the MERS Plan Document as revised. MERS was established to provide retirement, survivor and disability benefits on a voluntary basis to the State of Michigan's local government employees. Act No. 427 of the Public Acts of 1984, as amended, establishes and amends the benefit provisions of the participants in MERS. The Municipal Employees Retirement System of Michigan issues a publicly available financial report that includes financial statements and required supplementary information for MERS. That report may be obtained by writing to the Municipal Employees Retirement System of Michigan, 447 N. Canal Road, Lansing, Michigan 48917 or by calling (800) 767-6377.

Funding Policy -

The plan adopted by the Board of County Road Commissioners requires employees to contribute 0%-5% of their annual compensation depending on their job category. The Road Commission is required to contribute at an actuarially determined rate; the weighted average rate for 2003 was 0% - 15.38% depending on employees' job category. The contribution requirements of plan members and the Road Commission are established and may be amended by the Road Commission, depending on the MERS contribution program adopted by the Road Commission.

LAPEER COUNTY ROAD COMMISSION
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NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2002

NOTE 11 - EMPLOYEE PENSION PLAN - (cont'd):

Annual Pension Costs -

For the year ended December 31, 2003, the Road Commission's annual pension cost of \$311,293 for MERS was equal to the Road Commission's required and actual contributions. The required contribution was determined as part of the December 31, 2002 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions include (a) a rate of return on the investment of present and future assets of 8% per year compounded annually, (b) projected salary increases of 4.5% per year compounded annually, attributable to inflation, (c) additional projected salary increases ranging from 0% to 4.16% per year, depending on age, attributable to seniority/merit, and (d) the assumption that benefits will increase 2.5% per year (annually) after retirement, for persons under Benefit B-1 or B-2. The actuarial value of MERS assets was determined using techniques on a basis of evaluation method that assumes the funds earn the expected rate of return (8%) and includes as an adjustment to reflect market value. Unfunded actuarial accrued liabilities are amortized as a level percent of payroll over a period of 30 years.

Three-Year Trend Information

<u>Fiscal Year Ending December 31,</u>	<u>Annual Pension Costs (APC)</u>	<u>Percentage of APC Contribution</u>	<u>Net Pension Obligation</u>
2001	\$ 169,650	100 %	\$ -
2002	211,995	100	-
2003	311,293	100	-

Schedule of Funding Progress

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Accrued Liability (AAL) Entry Age (b)</u>	<u>Actuarial (Overfunded) Accrued Liability (UAAL) (b-a)</u>	<u>Unfunded Funded Ratio (AAL) (a/b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a % of Covered Payroll [(b-a)/c]</u>
2000	\$ 6,233,453	\$ 8,801,439	\$ 2,567,986	71 %	\$ 2,230,039	115 %
2001	6,418,663	9,234,499	2,815,836	70	2,216,994	127
2002	6,381,297	9,540,149	3,158,852	67	2,329,568	136

NOTE 12 - POSTEMPLOYMENT BENEFITS:

In addition to the pension benefits described in Note 11, the Lapeer County Road Commission provides postemployment health care, limited optical/dental reimbursement, prescription reimbursement, and life insurance to eligible employees who retire from the Road Commission on or after attaining retirement age with at least ten years of service. These expenditures are recognized on a pay-as-you-go basis. For the year ended December 31, 2003, health care costs amounted to approximately \$244,974 for 40 eligible participants, \$6,920 for optical/dental reimbursement for approximately 40 eligible participants, \$21,712 for prescription reimbursement for approximately 40 eligible participants and \$4,493 for life insurance costs for approximately 35 eligible participants.

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NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2002

NOTE 13 – SUMMARY OF DISCLOSURE OF SIGNIFICANT CONTINGENCIES:

In the normal course of its operations, the Lapeer County Road Commission often becomes a party to various claims and lawsuits. In the opinion of the Road Commission's legal counsel, if any of these claims should result in an unfavorable resolution to the Road Commission, the Road Commission's liability would be limited to its deductible under insurance policies. The insurer would pay the losses, and there should be no material effect on the financial position of the Road Commission.

Also as a part of its trunkline maintenance agreement with the State of Michigan, the Road Commission's costs charged to the State are subject to audit. The Michigan Department of Transportation has audited the 2001 State Trunkline Maintenance contract and has determined the Lapeer County Road Commission should reimburse the State \$22,236. Because of the uncertainty of the final amount owed, the Road Commission has recorded a contingent liability of \$22,236 and reduced State Trunkline revenue in 2003 by \$22,236 as would have been the procedure had the amount been reimbursed to the Michigan Department of Transportation.

NOTE 14 - RISK MANAGEMENT:

The Road Commission is a member of the County Road Association Self-Insurance Fund for workers' compensation self-insurance. The fund is a municipal self-insurance entity operating within the laws of the State of Michigan. The fund has entered into reinsurance agreements providing for loss coverage in excess of amounts to be retained by the Fund.

The Road Commission provides for its employees dental/optical reimbursement programs for regular full-time employees, spouses and dependent children under nineteen (19) years of age. Based on their bargaining unit employees may be reimbursed for dental and/or optical up to \$575 or \$650 for bills or apply their reimbursement amount to the cost of the insurance premium.

The Road Commission carries commercial insurance for all other risks of loss, including life, disability and health insurance, automobile liability, errors or omissions liability and bodily injury, property damage, personal injury liability and property (building and grounds). The amount of settlements (claims) for the past three years have not exceeded insurance coverage.

NOTE 15 – EQUIPMENT EXPENDITURE/EXPENSE NET BALANCE:

The Road Commission, in compliance with the Uniform Accounting Procedures Manual for Michigan County Road Commissions charges rental on Road Commission equipment used for various construction and maintenance projects performed by the Road Commission. The cost for this rental, which is based on a rental rate per hour established by the Michigan Department of Transportation multiplied by rental hours, is reported as an expenditure/expense in the various maintenance activities. An expenditure/expense credit is reported as an offset against the equipment expenditure/expense activities. Accordingly, the equipment rental does not affect total expenditures/expense or the available operating equity of the Road Commission's General Operating Fund. The net balance for the year ended December 31, 2003 is as follows:

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NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2003

NOTE 15 – EQUIPMENT EXPENDITURE/EXPENSE NET BALANCE – (cont'd):

	<u>Governmental Fund</u>	<u>Statement of Activities</u>
Equipment –		
Direct	\$ 1,411,782	\$ 824,249
Indirect	499,346	473,706
Operating	<u>188,005</u>	<u>188,005</u>
	2,099,133	1,485,960
Less-equipment rental	<u>2,023,883</u>	<u>2,023,883</u>
	<u>\$ 75,250</u>	<u>\$ (537,923)</u>

NOTE 16 – CAPITAL OUTLAY EXPENDITURES CREDIT BALANCE:

On the governmental financial statements, the Road Commission reports a depreciation credit as an offset to capital outlay as a result of charging depreciation to various expenditure accounts as explained in Note 1. Retirements are also reported as a credit against capital outlay. The credit balance of \$481,334 is the result of the amount of depreciation and retirements exceeding capital outlay expenditures for the year ended December 31, 2003 as follows:

Capital Outlay –	
Land improvements, building and equipment	\$ 175,057
Less - depreciation/depletion	(648,584)
- retirements	<u>(7,807)</u>
	<u>\$ (481,334)</u>

NOTE 17 – CHANGE IN ACCOUNTING PRINCIPLES AND RESTATEMENT OF PRIOR YEAR FUND EQUITY:

Change in Accounting Principles – As of and for the year ended December 31, 2003, the Road Commission implemented the following Governmental Accounting Standards Board pronouncements:

GASB Statement 34 Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments creates new basic financial statements for reporting on the Road Commission's financial activities. The financial statements now include government-wide financial statements prepared on an accrual basis of accounting and fund financial statements which present information for individual major funds rather than by fund type. Also the statements require a management's discussion and analysis letter to offer readers a narrative of the financial statements.

GASB Statement 37 Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments – Omnibus clarified certain provisions of Statement No. 34, including the required content of the MD&A, the classification of program revenues and the criteria to determine major funds.

LAPEER COUNTY ROAD COMMISSION
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NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2003

NOTE 17 – CHANGE IN ACCOUNTING PRINCIPLES AND RESTATEMENT OF PRIOR YEAR FUND EQUITY – (cont'd):

GASB Statement 38 Certain Financial Statement Note Disclosures modifies, establishes and rescinds certain financial statements note disclosure.

As a result of implementing these pronouncements for the year ended December 31, 2003 the following restatements were made to beginning fund balance to net assets of the government-wide financial statements.

Fund Balance – January 1, 2003	\$ 3,040,156
Capital assets	81,849,889
Accumulated depreciation on capital assets	(23,032,013)
Prepaid expenses	36,229
Due from Townships	83,991
Notes payable	(4,110,000)
Capital leases payable	(115,200)
Accrued vacation and sick	(65,519)
Deferred revenue	3,968,217
Accrued interest payable	(86,299)
Net Assets – January 1, 2003	<u>\$ 61,569,451</u>

SUPPLEMENTARY INFORMATION

LAPEER COUNTY ROAD COMMISSION
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DETAIL SCHEDULE OF REVENUES
GENERAL OPERATING FUND
FOR THE YEARS ENDED DECEMBER 31, 2003

	2003	2002
Revenues:		
Permits	\$ 110,853	\$ 143,782
Federal Sources -		
Federal aid secondary	1,019,710	386,961
State Sources -		
Motor Vehicle Highway Funds - Act 51 -		
Engineering	10,000	10,000
Primary roads	4,375,255	4,125,536
Local roads	2,383,661	2,279,688
Primary urban roads	133,085	127,550
Local urban roads	40,690	38,998
Federal Aid Funds sold to State	487,568	674,083
Economic Development Fund	145,414	-
Critical Bridge	99,304	479,427
	<u>7,674,977</u>	<u>7,735,282</u>
Local Sources -		
Township contributions	2,700,509	2,643,244
Other contributions	128,313	189,063
	<u>2,828,822</u>	<u>2,832,307</u>
Charges for Services -		
Trunkline maintenance	846,550	760,274
Trunkline nonmaintenance	141,899	194,948
Salvage sales	7,622	4,825
Other	-	4,819
	<u>996,071</u>	<u>964,866</u>
Interest and rents	40,841	34,394
Other -		
Land and building sales	7,971	12,000
Gain on equipment disposal	31,512	16,882
Other	281	3,682
	<u>39,764</u>	<u>32,564</u>
Total Revenues	<u>12,711,038</u>	<u>11,743,195</u>
Other Financing Sources:		
County appropriations	220,711	182,074
Note proceeds	-	1,300,000
Capital lease proceeds	-	279,756
	<u>220,711</u>	<u>1,761,830</u>
Total Revenues and Other Sources	<u>\$ 12,931,749</u>	<u>\$ 13,505,025</u>

LAPEER COUNTY ROAD COMMISSION
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**DETAIL SCHEDULE OF EXPENDITURES
GENERAL OPERATING FUND
FOR THE YEARS ENDED DECEMBER 31, 2003**

Expenditures:	<u>2003</u>	<u>2002</u>
Heavy Maintenance -		
Primary roads and structures		
Local roads and structures	\$ 3,757,826	\$ 1,594,997
	<u>2,459,449</u>	<u>4,475,345</u>
	<u>6,217,275</u>	<u>6,070,342</u>
Maintenance -		
Primary roads and structures,		
winter and traffic control		
Local roads and structures,	1,803,742	1,590,463
winter and traffic control		
	<u>2,559,507</u>	<u>2,213,910</u>
	<u>4,363,249</u>	<u>3,804,373</u>
State Maintenance -		
Trunkline maintenance	868,795	911,469
Truckline nonmaintenance	<u>141,995</u>	<u>194,853</u>
	<u>1,010,790</u>	<u>1,106,322</u>
Administrative -		
Administration	833,677	708,348
Less - handling	(12,708)	(20,983)
- overhead	(123,860)	(142,181)
- purchase discounts	<u>(1,897)</u>	<u>(752)</u>
	<u>695,212</u>	<u>544,432</u>
Equipment -		
Direct		
Indirect	1,411,782	1,603,807
Operating	499,346	543,384
Less - equipment rental	188,005	162,030
	<u>(2,023,883)</u>	<u>(1,797,912)</u>
	<u>75,250</u>	<u>511,309</u>
Other -		
Services	<u>236,018</u>	<u>576,991</u>
Capital Outlay -		
Land improvements, building		
and equipment	175,057	559,032
Less - depreciation	(648,584)	(752,753)
- retirements	(7,807)	(6,368)
	<u>(481,334)</u>	<u>(200,089)</u>
Debt Service -		
Principal retirement	718,400	1,212,351
Interest and fiscal charges	<u>200,301</u>	<u>189,085</u>
	<u>918,701</u>	<u>1,401,436</u>
Total Expenditures	<u>\$ 13,035,161</u>	<u>\$ 13,815,116</u>

LAPEER COUNTY ROAD COMMISSION
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SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BY FUND BALANCE SUB-ACCOUNTS
GENERAL OPERATING FUND
FOR THE YEAR ENDED DECEMBER 31, 2003

	<u>Primary</u>	<u>Local</u>	<u>County</u>	<u>Total</u>
Revenues:				
Licenses and permits	\$ -	\$ -	\$ 110,853	\$ 110,853
Intergovernmental -				
Federal Sources	764,927	254,783		1,019,710
State Sources	5,196,806	2,478,171		7,674,977
Local Sources	-	2,700,509	-	2,700,509
Charges for Services	988,449	-	128,313	2,828,822
Interest & rents	-	-	7,622	996,071
Other	-	-	40,841	40,841
	<u>6,950,182</u>	<u>5,433,463</u>	<u>39,764</u>	<u>39,764</u>
Other Financing Sources:				
County appropriations	-	220,711	-	220,711
Total Revenues and Other Sources	<u>6,950,182</u>	<u>5,654,174</u>	<u>327,393</u>	<u>12,931,749</u>
Expenditures:				
Heavy Maintenance	3,757,826	2,459,449	-	6,217,275
Maintenance	1,803,742	2,559,507	-	4,363,249
Other -				
Trunkline maintenance	868,795	-	-	868,795
Trunkline nonmaintenance	141,995	-	-	141,995
Administrative - net	365,433	329,779	-	695,212
Equipment - net	32,222	42,441	587	75,250
Other	-	-	236,018	236,018
Capital outlay - net	-	-	(481,334)	(481,334)
Debt principal	280,176	79,024	359,200	718,400
Interest	78,117	22,033	100,151	200,301
Total Expenditures	<u>7,328,306</u>	<u>5,492,233</u>	<u>214,622</u>	<u>13,035,161</u>
Excess of revenues and other sources over (under) expenditures	(378,124)	161,941	112,771	(103,412)
Fund Balance at January 1, 2003	<u>2,039,679</u>	<u>982,515</u>	<u>17,962</u>	<u>3,040,156</u>
Fund Balance at December 31, 2003	<u>\$ 1,661,555</u>	<u>\$ 1,144,456</u>	<u>\$ 130,733</u>	<u>\$ 2,936,744</u>



**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

To the Board of County Road
Commissioners of Lapeer County
Lapeer, Michigan

We have audited the financial statements of Lapeer County Road Commission, a component unit of Lapeer County, Michigan, as of and for the year ended December 31, 2003, and have issued our report thereon, dated March 5, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Lapeer County Road Commission's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control over Financial Reporting

In planning and performing our audit, we considered Lapeer County Road Commission's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be a material weakness. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting, which we have reported to management of the Lapeer County Road Commission in a separate letter, dated March 5, 2004.

This report is intended solely for the information and use of management and Board of County Road Commissioners of the Lapeer County Road Commission and is not intended to be and should not be used by anyone other than these specified parties.

March 5, 2004

Certified Public Accountants

LAPEER COUNTY ROAD COMMISSION
A Component Unit of Lapeer County, Michigan

**GENERAL HISTORY
REVENUES BY SOURCE
YEARS ENDED 1994 THROUGH 2003
(UNAUDITED)**

Year Ended	Permits	Federal Sources	State Sources	Local Sources	Charge for Services	Interest and Rents	Other	Total Revenue
1994	\$ 156,554	\$(20,386)	\$ 5,425,739	\$ 2,233,002	\$ 956,743	\$ 43,504	\$ 536,559	\$ 9,331,715
1995	223,089	1,195,180	5,275,726	2,044,800	971,754	71,678	99,650	9,881,877
1996	179,679	831,506	5,571,025	1,987,717	1,472,671	96,122	86,786	10,225,506
1997	198,133	106,075	5,428,972	2,336,485	1,213,276	99,433	299,549	9,681,923
1998	197,083	531,115	7,419,428	1,993,918	1,061,902	145,305	578,962	11,927,713
1999	163,643	861,970	6,330,147	1,845,805	2,132,293	95,778	147,867	11,577,503
2000	178,381	170,547	7,105,044	1,775,046	1,297,314	156,941	437,679	11,120,952
2001 Restated	126,410	350,435	8,492,188	2,250,882	876,740	85,070	381,664	12,563,389
2002	143,782	386,961	7,735,282	2,832,307	964,866	34,394	32,564	12,130,156
2003	110,853	1,019,710	7,674,977	2,828,822	996,071	40,841	39,764	12,711,038

Note: The revenue reported above includes the operating revenues of the Road Commission. Other Financing Sources have been excluded from all years.

Table 1

LAPEER COUNTY ROAD COMMISSION
A Component Unit of Lapeer County, Michigan

GENERAL HISTORY
OPERATING EXPENDITURES BY ACTIVITY
YEARS ENDED 1994 THROUGH 2003
(UNAUDITED)

<u>Year Ended</u>	<u>Heavy Maintenance</u>	<u>Maintenance</u>	<u>State Truckline</u>	<u>Administration</u>	<u>Equipment</u>	<u>Other</u>	<u>Total Operating Expenditures</u>
1994	\$ 3,113,961	\$ 4,076,634	\$ 879,420	\$ 539,447	\$ 270,059	\$ 23,824	\$ 8,903,345
1995	3,615,726	3,456,436	927,073	300,448	264,543	51,436	8,615,662
1996	3,338,944	3,557,732	1,156,670	349,890	456,864	446,852	9,306,952
1997	3,224,683	3,529,576	959,923	434,655	223,533	173,207	8,545,577
1998	6,967,637	3,670,686	1,001,727	487,810	(136,357)	176,522	12,168,025
1999	4,401,563	2,763,839	1,945,359	419,599	(14,212)	123,340	9,639,488
2000	8,938,203	3,195,197	1,270,425	507,553	94,009	355,178	14,360,565
2001	5,913,375	3,779,530	813,544	580,825	316,712	184,085	11,588,071
2002	6,070,342	3,804,373	1,106,322	544,432	511,309	576,991	12,613,769
2003	6,217,275	4,363,249	1,010,790	695,212	75,250	236,018	12,597,794

Note: The expenditures reported above include the current operating expenditures of the Road Commission. Expenditures for capital outlay and debt service have been excluded from all years.

Table 2

LAPEER COUNTY ROAD COMMISSION
A Component Unit of Lapeer County, Michigan

NET CAPITAL OUTLAY
YEARS ENDED 1994 THROUGH 2003
(UNAUDITED)

<u>Year Ended</u>	<u>Land Improvements Building and Equipment</u>	<u>Less Depreciation</u>	<u>Less Retirements</u>	<u>Net Capital Outlay</u>
1994	\$ 1,007,111	\$(702,313)	\$(118,234)	\$ 186,564
1995	542,464	(644,293)	(34,851)	(136,680)
1996	83,684	(554,507)	(72,089)	(542,912)
1997	747,323	(465,299)	(80,743)	201,281
1998	377,243	(467,545)	(6,276)	(96,578)
1999	1,018,826	(445,668)	(25)	573,133
2000	762,130	(656,938)	(30,377)	74,815
2001	1,045,038	(640,724)	(91,910)	312,404
2002	559,032	(752,753)	(6,368)	(200,089)
2003	175,057	(648,584)	(7,807)	(481,334)

Table 3

LAPEER COUNTY ROAD COMMISSION
A Component Unit of Lapeer County, Michigan

LONG TERM DEBT

**RATIO OF ANNUAL DEBT SERVICE EXPENDITURES FOR
LONG-TERM DEBT TO MOTOR VEHICLE HIGHWAY FUNDS - ACT 51**

**YEARS ENDED 1994 THROUGH 2004
(UNAUDITED)**

<u>Year Ended</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Debt Service</u>	<u>Motor Vehicle Highway Funds Act 51 (1)</u>	<u>Ratio of Debt Service to MVHF - Act 51</u>
1994	\$ 627,536	\$ 319,617	\$ 947,153	\$ 4,545,074	20.84%
1995	874,923	385,181	1,260,104	4,858,710	25.93%
1996	947,003	267,648	1,214,651	4,766,923	25.48%
1997	1,243,770	198,363	1,442,133	5,129,923	28.11%
1998	992,860	170,478	1,163,338	6,261,409	18.58%
1999	733,616	111,507	845,123	6,100,162	13.85%
2000	478,882	102,796	581,678	6,593,746	8.82%
2001	1,063,714	214,580	1,278,294	6,572,090	19.45%
2002	1,212,351	189,085	1,401,436	6,329,245	22.14%
2003 (2)	<u>718,400</u>	<u>200,301</u>	<u>918,701</u>	<u>6,942,691</u>	<u>13.23%</u>
Total	<u>\$ 8,893,055</u>	<u>\$ 2,159,556</u>	<u>\$ 11,052,611</u>	<u>\$ 58,099,973</u>	<u>19.02%</u>

Note:

(1) Motor Vehicle Highway Funds - Act 51, represent the amount received from the State of Michigan as the distribution of gas and weight taxes that have been designated for Primary and Local Road expenditures. The amount, however, does not include an amount of \$10,000 per year in Motor Vehicle Highway Fund - Act 51 which has been designated for engineering expenditures.

(2) All except \$42,374 was financed through agreements with Townships.

Table 4

LAPEER COUNTY ROAD COMMISSION
A Component Unit of Lapeer County, Michigan

LONG TERM DEBT

**RATIO OF ANNUAL DEBT SERVICE EXPENDITURES FOR
LONG-TERM DEBT TO TOTAL OPERATING EXPENDITURES**

**YEARS ENDED 1994 THROUGH 2003
(UNAUDITED)**

<u>Year Ended</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Debt Service</u>	<u>Total Operating Expenditures (1)</u>	<u>Ratio of Debt Service to Total Operating Expenditures</u>
1994	\$ 627,536	\$ 319,617	\$ 947,153	\$ 8,903,345	10.64%
1995	874,923	385,181	1,260,104	8,615,662	14.63%
1996	947,003	267,648	1,214,651	9,306,952	13.05%
1997	1,243,770	198,363	1,442,133	8,545,577	16.88%
1998	992,860	170,478	1,163,338	12,168,025	9.56%
1999	733,616	111,507	845,123	9,639,488	8.77%
2000	478,882	102,796	581,678	14,360,565	4.05%
2001	1,063,714	214,580	1,278,294	11,588,071	11.03%
2002	1,212,351	189,085	1,401,436	12,613,769	11.11%
2003 (2)	<u>718,400</u>	<u>200,301</u>	<u>918,701</u>	<u>12,597,794</u>	<u>7.29%</u>
Total	<u>\$ 8,893,055</u>	<u>\$ 2,159,556</u>	<u>\$ 11,052,611</u>	<u>\$ 108,339,248</u>	<u>10.20%</u>

Note:

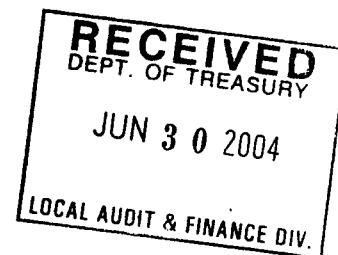
(1) Operating expenditures do not include expenditures for capital outlay as well as debt service.

(2) All except \$42,374 was financed through agreements with Townships.

Table 5



MANAGEMENT LETTER



Board of County Road Commissioners
Lapeer County Road Commission
Lapeer, Michigan

Members of the Board:

We have recently completed our audit of the records of the Lapeer County Road Commission for the year ended December 31, 2003. In connection with the examination, we believe certain changes in your accounting procedures would be helpful in improving management's control and/or the operational efficiency of the recordkeeping system. These suggestions are a result of our evaluation of the internal accounting controls and procedures, and our discussions with management. *As noted in our Report on the Internal Control Structure*, these were not considered to be material control weaknesses, but areas we would like to bring to your attention.

Control over Transfer Vouchers

At the present time, transfer vouchers (journal entries) include a description for the entry and are numbered and maintained in a binder for control purposes. However, not all transfer vouchers are required to be approved by a second individual.

Not having a procedure requiring that all transfer vouchers be approved allows for the possibility of inaccurate or fraudulent financial reporting.

We recommend that all transfer vouchers be approved by an individual that is able to analyze the accompanying information supporting the entry.

Conforming to the Uniform Budgeting Act

As noted in the audited financial statements, several expenditures of the Road Commission exceeded the amounts appropriated.

Michigan Public Act 621 of 1978 Sec. 18 as amended, provides that a Road Commission shall adopt a formal budget and shall not incur expenditures in excess of the amounts appropriated. The Road Commission has established procedures to detect such violations, however we recommend that the budget be monitored more closely to assist in eliminating expenditures in excess of budget.

These conditions were considered in determining the nature, timing and extent of the audit tests applied in our audit of the December 31, 2003 financial statements. We have not considered internal control since the date of our report. It is important to remember that management is responsible for the design and implementation of programs and controls to prevent and detect fraud.

This report is intended solely for the information of the management of the Lapeer County Road Commission and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,

Stewart, Beauvais + Whipple

March 5, 2004